

Auditing Procedures Report

Issued under P.A. 2 of 1968, as amended and P.A. 71 of 1919, as amended.

Local Unit of Government Type <input type="checkbox"/> County <input type="checkbox"/> City <input type="checkbox"/> Twp <input type="checkbox"/> Village <input type="checkbox"/> Other		Local Unit Name	County
Fiscal Year End	Opinion Date	Date Audit Report Submitted to State	

We affirm that:

We are certified public accountants licensed to practice in Michigan.

We further affirm the following material, "no" responses have been disclosed in the financial statements, including the notes, or in the Management Letter (report of comments and recommendations).

YES
NO

Check each applicable box below. (See instructions for further detail.)

1. ☐ ☐ All required component units/funds/agencies of the local unit are included in the financial statements and/or disclosed in the reporting entity notes to the financial statements as necessary.
2. ☐ ☐ There are no accumulated deficits in one or more of this unit's unreserved fund balances/unrestricted net assets (P.A. 275 of 1980) or the local unit has not exceeded its budget for expenditures.
3. ☐ ☐ The local unit is in compliance with the Uniform Chart of Accounts issued by the Department of Treasury.
4. ☐ ☐ The local unit has adopted a budget for all required funds.
5. ☐ ☐ A public hearing on the budget was held in accordance with State statute.
6. ☐ ☐ The local unit has not violated the Municipal Finance Act, an order issued under the Emergency Municipal Loan Act, or other guidance as issued by the Local Audit and Finance Division.
7. ☐ ☐ The local unit has not been delinquent in distributing tax revenues that were collected for another taxing unit.
8. ☐ ☐ The local unit only holds deposits/investments that comply with statutory requirements.
9. ☐ ☐ The local unit has no illegal or unauthorized expenditures that came to our attention as defined in the *Bulletin for Audits of Local Units of Government in Michigan*, as revised (see Appendix H of Bulletin).
10. ☐ ☐ There are no indications of defalcation, fraud or embezzlement, which came to our attention during the course of our audit that have not been previously communicated to the Local Audit and Finance Division (LAFD). If there is such activity that has not been communicated, please submit a separate report under separate cover.
11. ☐ ☐ The local unit is free of repeated comments from previous years.
12. ☐ ☐ The audit opinion is UNQUALIFIED.
13. ☐ ☐ The local unit has complied with GASB 34 or GASB 34 as modified by MCGAA Statement #7 and other generally accepted accounting principles (GAAP).
14. ☐ ☐ The board or council approves all invoices prior to payment as required by charter or statute.
15. ☐ ☐ To our knowledge, bank reconciliations that were reviewed were performed timely.

If a local unit of government (authorities and commissions included) is operating within the boundaries of the audited entity and is not included in this or any other audit report, nor do they obtain a stand-alone audit, please enclose the name(s), address(es), and a description(s) of the authority and/or commission.

I, the undersigned, certify that this statement is complete and accurate in all respects.

We have enclosed the following:	Enclosed	Not Required (enter a brief justification)		
Financial Statements	<input type="checkbox"/>			
The letter of Comments and Recommendations	<input type="checkbox"/>			
Other (Describe)	<input type="checkbox"/>			
Certified Public Accountant (Firm Name)		Telephone Number		
Street Address		City	State	Zip
Authorizing CPA Signature	Printed Name		License Number	

FERNDALÉ HOUSING COMMISSION

Financial Statements

December 31, 2005

Audited by

JOHN C. DIPIERO, P.C.

Certified Public Accountant

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This discussion and analysis of the Ferndale Housing Commission's financial performance should be read in conjunction with the auditor's opinion letter and the financial statements.

Entity-Wide Statements

The combined financial statements show, in one place, all the Commission's operations. Our statements are prepared on the accrual basis of accounting, which is similar to that used by most businesses. Under this method, all revenues and expenses connected with the fiscal year are taken into account even if the cash involved has not actually been received or paid. The Financial Data Schedule included within the audit report contains all the programs of the Commission.

Fund Statements

The Financial Data Schedule reports the Commission's operations in more detail. The Commission reports all its activities using Proprietary Fund types. These funds are used to show activities that operate more like commercial enterprises. The Financial Data Schedule is organized by the government Catalogue of Financial Domestic Assistance (CFDA) numbers.

Entity-Wide Financial Highlights

The Commission was awarded and received the following Federal Assistance:

	<u>Year 2006</u>	<u>Year 2005</u>
Operating Subsidies	\$ 246,220	\$ 246,659
Capital Projects Funds	372,221	238,594
Section 8 New Construction	501,600	484,204
Section 8 Housing Choice Vouchers	1,937,495	895,539

Comparison of the current year to the past and discussion of significant changes as follows:

	<u>Year 2006</u>	<u>Year 2005</u>	<u>Net Change</u>
Cash & cash equivalents	\$ 554,416	\$ 145,302	409,114
Accounts Receivable	211,508	54,280	157,228
Investments			
(Restricted/Unrestricted)	236,092	173,304	62,788
Prepaid Expenses	23,190	20,658	2,532

	<u>Year 2006</u>	<u>Year 2005</u>	<u>Net Change</u>
Fixed Assets, prior to			
Depreciation	\$ 10,141,994	\$ 9,789,834	\$ 352,160
Total Liabilities	324,435	318,800	5,635
Net Assets	6,896,783	6,366,233	530,550

	<u>Year 2006</u>	<u>Year 2005</u>	<u>Net Change</u>
Revenues:			
Tenant Revenues	\$ 399,186	\$ 398,755	\$ 431
HUD Grants	3,057,536	1,864,996	1192,540

Expenses:

Administrative	411,629	396,791	(16,458)
Tenant Services	1,475	1,219	(98)
Utilities	116,968	125,271	1,224
Maintenance & Operations	286,972	276,547	19,141
General Expenses	81,342	80,342	4,202
Depreciation Expense	333,897	313,662	1,567
Housing Assistance Payments	1,727,872	1,237,547	490,325

The Commission's cash position increased during the year, accounts receivable increased, investments increased, our prepaid expenses had little change; our fixed assets before depreciation increased, total liabilities were unchanged, and Net Assets increased. HUD grants increased as a result of additional Section 8 Housing Choice Vouchers, administrative expenses decreased, maintenance increased, housing assistance payments increased with the increase in vouchers, other expenses had unremarkable dollar changes.

Our cash position increased as a result of net income of \$ 508,272; the net income also increased our Net Assets accordingly. Our investments increased as we were able to reorganize our portfolio to gain a better rate of return and increase our position. Fixed assets increased as a result of improvements funded under the Capital Fund Project (CFP).

HUD grants are a result of requisitioning eligible funds. HUD grants received are a result of calculations under the Performance Funding System, Capital grants authorized and obligated during the year, and Housing Assistance Payments under the Section 8 New Construction and Housing Choice Vouchers programs.

The Commission provided the following housing for low to moderately low income families:

	<u>Year 2006</u>	<u>Year 2005</u>
Low Rent Public Housing	167	167
Section 8 New Construction	60	60
Section 8 Housing Choice Vouchers	318	151

General Fund Budgetary Highlights

The Commission approved an annual budget on October 18, 2004 for the budget year ending December 31, 2005; we had no occasion to amend the budget. The significant differences between our budget and actual results are as follows:

	<u>Budget</u>	<u>Actual</u>	<u>Difference</u>
Administrative Salaries	\$ 250,000	\$ 230,847	\$ 19,153
Administrative Expenses	135,214	76,511	58,703
Utilities	147,000	116,968	30,032
Operating Income (Loss)	(129,650)	(50,149)	79,501

Administrative salaries, (actual) were influenced by the change of personnel during the year and addition of staff for the Section 8 Housing Choice Voucher program. Administrative expenses were lower than originally anticipated; Utilities were lower than originally budgeted as the prior winter was milder than past years; the actual net income after other sources and charges was \$ 508,272.

Entity Wide Capital Assets

The fixed assets before depreciation increased \$ 530,550. The increase was the result of combining the 2002 and 2003 CFP programs to renovate the administrative offices; we also made improvements to the community room and some landscaping. The administrative offices were enlarged to accommodate additional personnel due to the increase in the Section 8 Housing Choice Voucher program; we added additional office space.

Commission's Position

The Commission plans to use the 2005 capital funds for appliance replacement (\$ 41,000), make parking lot repairs and additional landscaping (\$ 59,000), and augment our operating reserves (\$ 50,283).

Last year the Commission accepted an additional 167 Housing Choice Vouchers, and has entered into an agreement to accept an additional 204 Housing Choice Vouchers in fiscal 2007; the additional Vouchers required enlarging our administrative offices and hiring additional personnel. The Commission believes the need exists in our community for these services and has accepted the responsibility to administer those programs.

Although we anticipate current funding levels for operations and capital improvements will remain consistent with past years, some uncertainty exists. The Commission is concerned with the increase in Federal unfunded mandates such as project based accounting, asset management, and uncertainty in future funding with the new subsidy calculations and cuts in other federal programs; however, the Commission expects to continue to provide safe, sanitary and decent housing for the low and moderately low income elderly families.

Questions or comments concerning this Management Discussion and Analysis may be directed to:

Deborah Wilson, Executive Director
415 Withington
Ferndale, Michigan 48220

John C. DiPiero, P.C.

Certified Public Accountant

P. O. Box 378
Hemlock, Michigan 48626
Tel / Fax (989) 642-2092

Board of Commissioners
Ferndale Housing Commission
415 Withington
Ferndale, Michigan 48220

Independent Auditor's Report

I have audited the Business Type Activities of the Ferndale Housing Commission as of and for the year ended December 31, 2005. These financial statements are the responsibility of the Housing Commission's management. My responsibility is to express an opinion on the financial statements based on my audit.

I conducted my audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in Government Auditing Standards, issued by the Comptroller General of the United States. Those standards require that I plan and perform the audit to obtain reasonable assurance about whether the financial statements are free from material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. I believe that my audit provides a reasonable basis for my opinion.

In my opinion, the financial statements referred to above present fairly, in all material respects, the financial position of the Ferndale Housing Commission as of December 31, 2005, and the results of its operations and the cash flows for the year then ended, in conformity with accounting principles generally accepted in the United States of America.

Required Supplemental Information

The Management's Discussion and Analysis and the required supplemental information are not a required part of the basic financial statements but is supplemental information required by the Governmental Auditing Standards Board. I have applied certain limited procedures, which consisted principally of inquiries of management regarding the methods of measurement and presentation of the supplemental information. However, I did not audit the information and express no opinion on it.

The accompanying schedule of expenditures of federal awards is presented for purposes of additional analysis as required by U. S. Office of Management and Budget Circular A-133, *Audits of States, Local Governments, and Non-Profit Organizations*, and is not a required part of the financial statements. Such information has been subjected to the auditing procedures applied in the audit of the financial statements and, in my opinion, is fairly stated, in all material respects, in relation to the financial statements taken as a whole.

Combining Financial Statements

My audit was conducted for the purpose of forming an opinion on the financial statements taken as a whole. The accompanying Financial Data Schedule is presented for purposes of additional analysis and is not a required part of the basic financial statements. Such information has been subjected to the auditing procedures applied in the audit of the basic financial statements and, in my opinion, if fairly stated in all material respects in relation to the financial statements taken as whole.

Certified Public Accountant

June 2, 2006

FERNDALE HOUSING COMMISSION
Statement of Net Assets
December 31, 2005

ASSETS

C-3089

CURRENT ASSETS

Cash	\$	554,416	
Accounts Receivable- Tenants		3,423	
Accounts Receivable- HUD		208,085	
Investments		236,092	
Prepaid Expenses		<u>23,190</u>	
Total Current Assets			\$ 1,031,647

NON CURRENT ASSETS

Land	\$	823,793	
Buildings		5,684,153	
Furniture, Equipment- Dwelling		38,212	
Furniture, Equipment- Administrative		213,404	
Leasehold Improvements		3,382,432	
Accumulated Depreciation		<u>(3,952,423)</u>	
Total Non Current Assets			<u>6,189,571</u>

<u>TOTAL ASSETS</u>	\$ <u>7,221,218</u>
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FERNDALE HOUSING COMMISSION
Statement of Net Assets
December 31, 2005

LIABILITIES & NET ASSETS

C-3089

LIABILITIES:

CURRENT LIABILITIES

Accounts Payable	\$	21,107
Accrued Wages & Payroll Taxes		6,472
Accrued Compensated Absences		5,965
Tenants Security Deposit		31,853
Accounts Payable- Other Governments		21,967
Deferred Revenue		133,931
Other Current Liabilities		<u>49,457</u>
<u>Total Current Liabilities</u>	\$	270,752

NON CURRENT LIABILITIES

Accrued Compensated Absences-non current		<u>53,683</u>
<u>Total Non Current Liabilities</u>	\$	324,435

NET ASSETS:

Invested in Capital Assets, net of Related Debt	\$	6,189,571
Unrestricted Net Assets		<u>707,312</u>
<u>Total Net Assets</u>		<u>6,896,783</u>

<u>TOTAL LIABILITIES & NET ASSETS</u>	\$	<u>7,221,218</u>
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The Accompanying Footnotes are an Integral Part of the Financial Statements

FERNDALE HOUSING COMMISSION
Combined Statement of Revenues, Expenses, and Changes in Net Assets
For the year ended December 31, 2005

OPERATING REVENUE

Tenant Rental Revenue	\$ 390,075	
Tenant Revenue-Other	9,111	
HUD Grants	2,685,315	
Interest Income	5,474	
Other Income	<u>6,841</u>	
<u>Total Operating Revenue</u>		\$ 3,096,816

OPERATING EXPENSES

Administrative	\$ 411,629	
Tenant Services	1,475	
Utility Expenses	116,968	
Ordinary Maintenance	286,972	
Protective Services	610	
General Expenses	<u>81,342</u>	
<u>Total Operating Expenses</u>		<u>898,996</u>
<u>Operating Income (Loss)</u>		\$ 2,197,820

NONOPERATING REVENUE (EXPENSES)

Housing Assistance Payments	\$ (1,727,872)	
Depreciation Expenses	<u>(333,897)</u>	
<u>Total NonOperating Revenue (Expenses)</u>		<u>(2,061,769)</u>
<u>Income (Loss) before Contributions</u>		\$ 136,051

CAPITAL CONTRIBUTIONS

<u>Changes in Net Assets</u>		<u>372,221</u>
		\$ 508,272
Total Net Assets- Beginning	\$ 6,366,233	
Correction of prior year accruals	<u>22,278</u>	<u>6,388,511</u>
 Total Net Assets- Ending		 \$ <u>6,896,783</u>

The Accompanying Notes are an Integral part of the Financial Statements

FERNDALE HOUSING COMMISSION
Combined Statement of Cash Flows
For the Year Ended December 31, 2005

Business Type Activities

CASH FLOWS FROM OPERATING ACTIVITIES

Receipts from Customers	\$ 397,283
Payments to Suppliers	(2,339,400)
Payments to Employees	(344,340)
HUD Grants	3,057,536
Other Receipts (Payments)	<u>12,315</u>
Net Cash Provided (Used) by Operating Activities	\$ 783,394

CASH FLOWS FROM CAPITAL AND
RELATED FINANCING ACTIVITIES

Purchases of Capital Assets	<u>(374,280)</u>
Net Increase (Decrease) in Cash and Cash Equivalents	\$ 409,114
Balance- Beginning of Year	<u>145,302</u>
Balance- End of Year	\$ <u>554,416</u>

RECONCILIATION OF OPERATING INCOME (LOSS) TO NET
CASH PROVIDED (USED) BY OPERATING ACTIVITIES

Net Profit or (Loss)	\$ 508,272
Adjustments to Reconcile Operating Income to Net Cash Provided (Used) by Operating Activities:	
Depreciation	333,897
Changes in Assets (Increase) Decrease:	
Receivables (Gross)	(132,843)
Investments	(62,788)
Prepaid Expenses	(2,532)
Changes in Liabilities Increase (Decrease):	
Accounts Payable	(2,814)
Accrued Liabilities	16,121
Accrued Compensated Absences	2,778
Account Payable- HUD	(1,145)
Deferred Revenue	126,295
Security Deposits	<u>(1,847)</u>
Net Cash Provided by Operating Activities	\$ <u>783,394</u>

The Accompanying Notes are an Integral part of the Financial Statements

FERNDALE HOUSING COMMISSION
Notes to Financial Statements
December 31, 2005

NOTE 1: Summary of Significant Accounting Policies

Reporting Entity-

Ferndale Housing Commission, Ferndale, Michigan, (Commission) was created by ordinance of the city of Ferndale. The Commission signed and Annual Contributions Contract (ACC) with the U.S. Department of Housing and Urban Development (HUD). The ACC requires the Commission to provide safe, sanitary and decent housing for qualifying senior and low income families.

The Commission consists of the following:

MI 96 1, 2, 4	Low rent program	167 units
MI 28 V	Section 8 Vouchers	318 units
	Mod New Construction	60 units

In determining the reporting entity, the manifestations of oversight, as defined by the Governmental Accounting Standards Board (GASB), Cod. sec 2100, were considered. The criteria include the following:

The nucleus of the financial reporting entity as defined by the Governmental Accounting Standards Board (GASB) Statement No. 14 is the "primary government". A fundamental characteristic of a primary government is that it is a fiscally independent entity. In evaluating how to define the financial reporting entity, management has considered all potential component units. A component unit is legally separate entity for which the primary government is financially accountable. The criterion of financial accountability are the ability of the primary government to impose its will upon the potential component unit. Based on the above, there are no component units.

These criteria were considered in determining the reporting entity.

Basis of Presentation-

The accounts of the Commission are organized by the Catalog of Federal Domestic Awards (CFDA) numbers, in the Financial Data Schedule; each of which is considered a separate accounting entity. The operations of each fund are accounted for with a separate set of self balancing accounts that comprise its assets, liabilities, net assets, revenues, and expenditures, or expenses, as appropriate. Commission resources are allocated to and accounted for in individual funds based upon the purposes for which they are to be spent and the means by which spending activities are controlled.

Notes to Financial Statements- continued

Proprietary Funds

Enterprise Funds- Enterprise Funds are used to account for operations (a) that are financed and operated in a manner similar to private business enterprises- where the intent of the governing body is that the costs (expenses, including depreciation) of providing goods or services to the general public on a continuing basis be financed or recovered primarily through user charges; or (b) where the governing body has decided that periodic determination of revenues earned, expenses incurred, and/or net income is appropriate for capital maintenance, management control, accountability, or other purposes.

Basis of Accounting-

Basis of accounting refers to when revenues and expenditures or expenses are recognized in the accounts and reported in the financial statements. Basis of accounting relates to the timing of the measurements made, regardless of the measurement focus applied.

Proprietary Funds are accounted for using the accrual basis of accounting. The revenues are recognized when they are earned, and their expenses are recognized when they are incurred.

Prior to October 1, 1998, the Commission followed a basis of accounting consistent with the cognizant agency, the U. S. Department of Housing and Urban Development, HUD. Those practices differed from Generally Accepted Accounting Principals (GAAP); however, for all fiscal years beginning on or after October 1, 1998, HUD has required adherence to GAAP. Therefore, the current and future financial presentations will follow GAAP and the Financial Accounting Standards Board (FASB) pronouncements issued subsequent to November 30, 1989, provided they don't conflict with Governmental Accounting Standards Board (GASB) pronouncements.

Budgetary data-

Formal budgetary integration is employed as a management control device during the year in proprietary type funds. Budgets for funds are adopted on a basis consistent with generally accepted accounting principles (GAAP) for that fund type. The Commission adopts a budget annually, and amends the budgets as it feels necessary in order to maintain financial integrity.

Assets, Liabilities, and Net Assets-

Deposits & Investments

Deposits are stated at cost; the carrying amount of deposits is separately displayed on the balance sheet as cash and cash equivalents; investments are stated at cost which approximates market.

Notes to Financial Statements- continued

Cash Equivalents

Cash Equivalents represent investments purchased with a three month maturity or less; investments meeting this criteria are reclassified for financial statement purposes as cash.

Fixed Assets

The accounting and reporting treatment applied to the fixed assets are determined by its measurement focus. All proprietary funds are accounted for on a cost of services or "capital maintenance" measurement focus. This means that all assets and all liabilities (whether current or non-current) associated with their activity are included on their balance sheets. Their reported fund equity (net total assets) is reported as Invested in Capital Assets, Net of Related Debt.

Depreciation of all exhaustible fixed assets used by proprietary funds is charged as an expense against their operations; depreciation has been provided over the estimated useful lives using the straight line method. The estimated useful lives are as follows:

Buildings and Improvements	40 years
Equipment	3-10 years

Compensated Absences

Sick leave and other compensated absences with similar characteristics have been accrued as a liability. The amount accrued was based on the probability that the Commission will compensate the employees for the benefits through cash payments as a condition of the employees' termination or retirement.

Note 2: Cash and Investments.

The composition of cash and investments are as follows:

Cash:

General Fund Checking Accounts	\$ 518,253
Petty Cash	<u>100</u>
Total Cash	\$ 518,353
Investments reclassified as cash equivalents	<u>36,063</u>
Total Cash & cash equivalents	\$ <u>554,416</u>

Investments:

Certificates of Deposit	\$ 183,191
Savings Account	<u>88,964</u>
	\$ 272,155
Reclassified as Cash equivalents, above	<u>(36,063)</u>
Financial Statement Total	\$ <u>236,092</u>

Notes to Financial Statements- continued

Generally the Commission classifies cash and investments with the following risk assumptions:

- 1) Insured or registered in the Commission's name.
- 2) Uninsured or unregistered, held by a broker in the Commission's name.
- 3) Uninsured or unregistered, held by a broker not in the Commission's name.

	<u>Categories</u>			<u>Carrying</u>	<u>Market</u>
	<u>1</u>	<u>2</u>	<u>3</u>	<u>Amount</u>	<u>Value</u>
Cash:					
Checking A/C's	\$ 518,253	\$	\$	\$ 518,253	\$ 518,253
Savings Accounts	36,063			36,063	36,063
Petty Cash	<u>100</u>			<u>100</u>	<u>100</u>
Total Cash	\$ <u>554,416</u>	\$	\$	\$ <u>554,416</u>	\$ <u>554,416</u>
Investments:					
C/D's	\$ <u>236,092</u>	\$	\$	\$ <u>236,092</u>	\$ <u>236,092</u>

In addition to the above analysis, the Commission has adopted an investment policy as required by P.A. 196 of 1997; Michigan Compiled Law 129.95.

Note 2: Prepaid Expenses

Prepaid expenses consist of the following:

Prepaid Insurance	\$ 23,190
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Note 3: Fixed Asset Analysis.

The following represents the changes in fixed assets for the year:

	<u>Beginning</u>	<u>Additions</u>	<u>Deletions</u>	<u>End</u>
	<u>of Year</u>			<u>of Year</u>
Land	\$ 823,793	\$	\$	\$ 823,793
Buildings	5,684,153			5,684,153
Furniture & Equipment-Dwellings	38,212			38,212
Furniture & Equipment-Admin	172,042	63,482	22,120	213,404
Leasehold Improvements	<u>3,071,634</u>	<u>310,798</u>		<u>3,382,432</u>
	\$ 9,789,834	\$ 374,280	\$ 22,120	\$10,141,994
Less Accumulated Depreciation	<u>3,640,646</u>	<u>333,897</u>	<u>22,120</u>	<u>3,952,423</u>
	\$ <u>6,149,188</u>	\$ <u>40,383</u>	\$	\$ <u>6,189,571</u>

Notes to Financial Statements- continued

Note 4: Accrued Liabilities- Other

Accrued Liabilities- Other, consist of the following:

Construction Contract Retentions	\$ <u>49,457</u>
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Note 5: Pension Plan

The Ferndale Housing Commission contributes to a Simplified Employee Pension Plan, (SEPP). The Commission pays a percentage of all eligible employees wages to the fund. Employees are 100 % vested as soon as they are eligible. Eligibility requirements are as follows: full time employee, over 21 years of age, and have worked for the Commission for at least three of preceding five years. Information concerning the pension fund is contained in a separate audit report.

Note 6: Risk Management

The Commission is exposed to various risks of loss related to property loss, torts, error and omissions and employee injuries. The Commission purchases commercial insurance to cover the risks of these losses. The Commission had the following insurance in effect during the year:

<u>Types of Policies</u>	<u>Coverage's</u>
Property	\$ 19,355,000
General Liability	1,000,000
Dishonesty Bond	1,000,000
Worker's Compensation and other riders: minimum coverage's required by the State of Michigan	

Note 7: Reclassifications.

Certain prior years' balances have been reclassified to conform to the current year's presentation.

Note 8: Combining Financial Data Schedules.

The totals in the combining Balance Sheet and combining Income Statement represent unconsolidated totals. Under principals of consolidation, inter fund transactions would be eliminated; the totals in the combined statements follow the financial data schedule format recommended by the U.S. Department of Housing and Urban Development's Real Estate Assessment Center (REAC).

Ferndale Housing Commission

31-Dec-05

MI096

Combining Balance Sheet		Low Rent 14.850	Housing Choice Voucher Program 14.855	Capital Projects Funds 14.872	Section 8 Mod Rehab 14.856	TOTAL
Line Item #						
	ASSETS:					
	CURRENT ASSETS:					
	Cash:					
111	Cash - unrestricted	5,052	512,422	-	878	518,352
112	Cash - restricted - modernization and development	-				-
113	Cash - other restricted					-
114	Cash - tenant security deposits	36,064				36,064
100	Total cash	41,116	512,422	-	878	554,416
	Accounts and notes receivables:					
121	Accounts receivable - PHA projects				6,441	6,441
122	Accounts receivable - HUD other projects	-	-	208,085		208,085
124	Accounts receivable - other government					-
125	Accounts receivable - miscellaneous	-				-
126	Accounts receivable- tenants - dwelling rents	3,423				3,423
126.1	Allowance for doubtful accounts - dwelling rents	-				-
126.2	Allowance for doubtful accounts - other					-
127	Notes and mortgages receivable- current					-
128	Fraud recovery					-
128.1	Allowance for doubtful accounts - fraud					-
129	Accrued interest receivable					-
120	Total receivables, net of allowances for doubtful accounts	3,423	-	208,085	6,441	217,949
	Current investments					-
131	Investments - unrestricted	194,539	5,835		35,718	236,092
132	Investments - restricted					-
142	Prepaid expenses and other assets	23,190				23,190
143	Inventories	-				-
143.1	Allowance for obsolete inventories					-
144	Interprogram - due from	75,422	43,953	-	-	119,375
146	Amounts to be provided					-
150	TOTAL CURRENT ASSETS	337,690	562,210	208,085	43,037	1,151,022
	NONCURRENT ASSETS:					
	Fixed assets:					
161	Land	823,793				823,793
162	Buildings	5,684,153				5,684,153
163	Furniture, equipment & machinery - dwellings	38,212				38,212
164	Furniture, equipment & machinery - administration	151,981	-	61,423		213,404
165	Leasehold improvements	2,954,339		428,093	-	3,382,432
166	Accumulated depreciation	(3,952,423)	-	-		(3,952,423)
160	Total fixed assets, net of accumulated depreciation	5,700,055	-	489,516	-	6,189,571
171	Notes and mortgages receivable - non-current					-
172	Notes and mortgages receivable-non-current-past due					-
174	Other assets					-
175	Undistributed debits					-
176	Investment in joint ventures					-
180	TOTAL NONCURRENT ASSETS	5,700,055	-	489,516	-	6,189,571
190	TOTAL ASSETS	6,037,745	562,210	697,601	43,037	7,340,593

	LIABILITIES AND EQUITY					
	LIABILITIES:					
	CURRENT LIABILITIES					
311	Bank overdraft					-
312	Accounts payable ≤ 90 days	21,107	-	-	-	21,107
313	Accounts payable > 90 days past due					-
321	Accrued wage/payroll taxes payable	6,472				6,472
322	Accrued compensated absences	5,965				5,965
324	Accrued contingency liability					-
325	Accrued interest payable					-
331	Accounts payable - HUD PHA programs		-		-	-
332	Accounts Payable - PHA Projects					-
333	Accounts payable - other government	21,967	-	-		21,967
341	Tenant security deposits	31,853				31,853
342	Deferred revenues	4,737		129,194		133,931
343	Current portion of Long-Term debt - capital projects					-
344	Current portion of Long-Term debt - operating borrowings					-
345	Other current liabilities	-				-
346	Accrued liabilities - other	49,457	-			49,457
347	Inter-program - due to	-	-	78,891	40,484	119,375
310	TOTAL CURRENT LIABILITIES	141,558	-	208,085	40,484	390,127
	NONCURRENT LIABILITIES					
351	Long-term debt, net of current- capital projects					-
352	Long-term debt, net of current- operating borrowings					-
353	Noncurrent liabilities- other	-				-
354	Accr. Comp. Absences-Non Current	53,683		-		53,683
350	TOTAL NONCURRENT LIABILITIES	53,683	-	-	-	53,683
300	TOTAL LIABILITIES	195,241	-	208,085	40,484	443,810
	EQUITY:					
501	Investment in general fixed assets					-
	Contributed Capital:					
502	Project notes (HUD)					-
503	Long-term debt - HUD guaranteed	-				-
504	Net HUD PHA contributions	-			-	-
505	Other HUD contributions					-
508.01	Net Assets invested in Capital Assets	5,700,055		489,516		6,189,571
508	Total contributed capital	5,700,055	-	489,516	-	6,189,571
	Reserved fund balance:					-
509	Reserved for operating activities					-
510	Reserved for capital activities					-
511	Total reserved fund balance	-	-	-	-	-
512	Undesignated fund balance/retained earnings	142,449	562,210	-	2,553	707,212
513	TOTAL EQUITY	5,842,504	562,210	489,516	2,553	6,896,783
600	TOTAL LIABILITIES AND EQUITY	6,037,745	562,210	697,601	43,037	7,340,593

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Ferndale Housing Commission

31-Dec-05

MI096

Combining Income Statement		Low Rent 14.850	Section 8 Housing Choice Voucher Program 14.855	Capital Projects Funds 14.872	Section 8 Mod Rehab 14.856	TOTAL
Line Item #				-		
	REVENUE:	-	-			
703	Net tenant rental revenue	390,075				390,075
704	Tenant revenue - other	9,111				9,111
705	Total tenant revenue	399,186	-	-	-	399,186
706	HUD PHA grants	246,220	1,937,495	372,221	501,600	3,057,536
708	Other government grants					-
711	Investment income - unrestricted	4,590	138	-	746	5,474
712	Mortgage interest income					-
714	Fraud recovery		3,825			3,825
715	Other revenue	2,870	-	-		2,870
716	Gain or loss on the sale of fixed assets	146				146
720	Investment income - restricted					-
700	TOTAL REVENUE	653,012	1,941,458	372,221	502,346	3,469,037
	EXPENSES:					
	Administrative					
911	Administrative salaries	124,940	91,451		14,456	230,847
912	Auditing fees	1,450	1,450			2,900
913	Outside management fees					-
914	Compensated absences	-				-
915	Employee benefit contributions- administrative	33,097	35,690		4,824	73,611
916	Other operating- administrative	56,307	44,964	-	3,000	104,271
	Tenant services					
921	Tenant services - salaries					-
922	Relocation costs	-				-
923	Employee benefit contributions- tenant services					-
924	Tenant services - other	1,475				1,475
	Utilities					
931	Water	51,231				51,231
932	Electricity	28,416				28,416
933	Gas	37,321				37,321
934	Fuel					-
935	Labor					-
937	Employee benefit contributions- utilities					-
938	Other utilities expense	-				-
	Ordinary maintenance & operation					
941	Ordinary maintenance and operations - labor	113,493				113,493
942	Ordinary maintenance and operations - materials & other	20,553				20,553
943	Ordinary maintenance and operations - contract costs	96,281				96,281
945	Employee benefit contributions- ordinary maintenance	56,645				56,645
	Protective services					
951	Protective services - labor					-

FERNDALE HOUSING COMMISSION
Schedule of Federal Financial Assistance
For the Year Ended December 31, 2005

U.S. DEPARTMENT OF HOUSING AND URBAN DEVELOPMENT

Direct Programs:

	<u>Annual Program Expenditures</u>
<u>CFDA 14.850 Public and Indian Housing</u>	
C-3029 Operating Subsidies	\$ <u>246,220</u>
* <u>CFDA 14.855 Housing Assistance Program</u>	
C-3099V Section 8 Housing Choice Vouchers	\$ <u>1,937,495</u>
* <u>CFDA 14.872 Capital Projects Program</u>	
C-3029 Capital Projects Funds	\$ <u>372,221</u>
* <u>CFDA 14.856 Lower Income Housing Assistance</u>	
C-3117 Section 8 New Construction	\$ <u>501,600</u>
	\$ <u>3,057,536</u>

*Connotes Major Program Category

Significant Account Policies

The accounting policies of the Commission conform to generally accepted accounting principles as applicable to governmental proprietary funds. The financial statements contained in the Commission's annual audit report are prepared on the accrual basis of accounting; revenues are recognized when earned, expenses are recorded when the related services or product are received.

Risk management

The Commission is exposed to various risks of loss related to property loss, torts, error and omissions and employee injuries. The Commission purchases commercial insurance to cover the risks of these losses. The Commission had the following insurance in effect during the year:

<u>Types of Policies</u>	<u>Coverage's</u>
Property	\$ 19,355,000
General Liability	1,000,000
Dishonesty Bond	1,000,000
Worker's Compensation and other riders: minimum coverage's required by the State of Michigan	

FERNDALE HOUSING COMMISSION
Status of Prior Audit Findings
December 31, 2005

The prior audit of the Ferndale Housing Commission for the period ended December 31, 2004, contained two audit findings; the corrective action taken by the Commission is as follows:

- 1) No Credit Card Policy- the Commission adopted an acceptable credit card policy.
- 2) Tenant Accounting Discrepancies, Voucher Program- The prior year discrepancies were addressed, no discrepancies were revealed in the current audit.

FERNDALE HOUSING COMMISSION
Report on Compliance with Requirements
Applicable to Each Major Program
and on Internal Control over Compliance in
Accordance with OMB Circular A-133
December 31, 2005

Compliance

I have audited the compliance of Ferndale Housing Commission with the types of compliance requirements described in the U. S. Office of Management and Budget (OMB) Circular A-133 Compliance Supplement that are applicable to each of its major federal programs for the year ended December 31, 2005. Ferndale Housing Commission's major federal programs are identified in the summary of auditor's results section of the accompanying schedule of findings and questioned costs. Compliance with the requirements of laws, regulations, contracts, and grants applicable to each of its major federal programs is the responsibility of Ferndale Housing Commission's management. My responsibility is to express an opinion on Ferndale Housing Commission's compliance based on my audit.

I conducted my audit of compliance in accordance with auditing standards generally accepted in the United States of America; the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States; and OMB Circular A-133, *Audits of States, Local Governments, and Non-Profit Organizations*. Those standards and OMB Circular A-133 require that I plan and perform the audit to obtain reasonable assurance about whether noncompliance with the types of compliance requirements referred to above that could have a direct and material effect on a major federal program occurred. An audit includes examining, on a test basis, evidence about Ferndale Housing Commission's compliance with those requirements and performing such other procedures as I considered necessary in the circumstances. I believe that my audit provides a reasonable basis for my opinion. My audit does not provide a legal determination of Ferndale Housing Commission's compliance with those requirements.

In my opinion, Ferndale Housing Commission complied, in all material respects, with the requirements referred to above that are applicable to each of its major federal programs for the year ended December 31, 2005.

Internal Control over Compliance

The management of Ferndale Housing Commission entity is responsible for establishing and maintaining effective internal control over compliance with the requirements of laws, regulations, contracts, and grants applicable to federal programs. In planning and performing my audit, I considered Ferndale Housing Commission's internal control over compliance with requirements that could have a direct and material effect on a major federal program in order to determine my auditing procedures for the purpose of expressing my opinion on compliance and to test and report on the internal control over compliance in accordance with OMB Circular A-133.

My consideration of the internal control over compliance would not necessarily disclose all matters in the internal control that might be material weaknesses. A material weakness is a condition in which the design or operation of one or more of the internal control components does not reduce to a relatively low level the risk that noncompliance with applicable requirements of laws, regulations, contracts, and grants that would be material in relation to a major federal program being audited may occur and not be detected within a timely period by employees in the normal course of performing their assigned functions. I noted no matters involving the internal control over compliance and its operation that I consider to be material weaknesses.

This report is intended solely for the information and use of management and the U. S. Department of Housing and Urban Development and is not intended to be and should not be used by anyone other than these specified parties.

Certified Public Accountant

June 2, 2006

FERNDALE HOUSING COMMISSION
Report on Compliance and on Internal Control over
Financial Reporting Based on an Audit of Financial
Statements Performed in Accordance with
Government Auditing Standards
December 31, 2005

I have audited the financial statements of Ferndale Housing Commission, Ferndale, Michigan, as of and for the year ended December 31, 2005, and have issued my report thereon dated June 2, 2006. I conducted my audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States.

Compliance

As part of obtaining reasonable assurance about whether Ferndale Housing Commission's financial statements are free of material misstatement, I performed tests of its compliance with certain provisions of laws, regulations, contracts, and grants, noncompliance with which could have a direct and material effect on the determination of financial statement amounts. However, providing an opinion on compliance with those provisions was not an objective of my audit, and accordingly, I do not express such an opinion. The results of my tests disclosed no instances of noncompliance that are required to be reported under *Government Auditing Standards*.

Internal Control Over Financial Reporting

In planning and performing my audit, I considered Ferndale Housing Commission's internal control over financial reporting in order to determine my auditing procedures for the purpose of expressing my opinion on the financial statements and not to provide assurance on the internal control over financial reporting. I did not note any matters relating to significant deficiencies in the design or operation of the internal control over financial reporting that, in my judgement, could adversely affect Ferndale Housing Commission's ability to record, process, summarize, and report financial data consistent with the assertions of management in the financial statements.

A material weakness is a condition in which the design or operation of one or more of the internal control components does not reduce to a relatively low level the risk that misstatements in amounts that would be material in relation to the financial statements being audited may occur and not be detected within a timely period by employees in the normal course of performing their assigned functions. My consideration of the internal control over financial reporting would not necessarily disclose all matters in the internal control that might be reportable conditions and, accordingly, would not necessarily disclose all reportable conditions that are also considered to be material weaknesses. However, I believe no reportable conditions or material weaknesses exist.

This report is intended solely for the information and use of management and the U. S. Department of Housing and Urban Development and is not intended to be and should not be used by anyone other than these specified parties.

Certified Public Accountant

June 2, 2006

FERNDALE HOUSING COMMISSION
Schedule of Findings and Questioned Cost
December 31, 2005

1) Summary of Auditor's Results:

Programs:

	<u>Major Program</u>	<u>Non Major Program</u>
Low income Public Housing		X
Housing Assistance Program- Vouch	X	
Lower Income Housing Assistance	X	
Capital Projects Funds	X	

Opinions:

General Purpose Financial Statements-

Unqualified

Material weakness(es) noted	_____ Yes	_____ X _____ No
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Reportable condition(s) noted	_____ Yes	_____ X _____ No
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Non Compliance material to financial statements noted	_____ Yes	_____ X _____ No
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Report on compliance for Federal programs-

Qualified

Material weakness(es) noted	_____ Yes	_____ X _____ No
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Reportable condition(s) noted	_____ Yes	_____ X _____ No
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Non Compliance material to financial statements noted	_____ Yes	_____ X _____ No
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Thresholds:

Dollar limit used to determine type A & B programs- \$ 300,000

The Auditee did qualify as a low risk auditee.

<u>Name of Federal Program</u>	<u>Major Program</u>	<u>Questioned Costs</u>	<u>Audit Finding Number</u>
Low Rent Public Housing	No	None	N/A
Section 8 Housing Vouchers	Yes	None	N/A
Capital Fund Project	Yes	None	N/A
New Construction	Yes	None	N/A